GSCLG

March 2009

GLOBAL SUPPLY CHAIN REVIEW

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“YES" TO COST SAVINGS
AND "MORE" COMPLIANCE

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Bill McLennan

Message from the President of GSCLG

Supply chain professionals have been rising through the corporate level in the past years, but only a few have reached the CEO title in non-supply chain service provider organizations and in the largest companies in the world. Some might say that we are climbing that ladder at a very slow pace.

Maybe because Supply Chain professionals feel more comfortable dealing with operations and tactical rather than strategic and more intangible problems. That preference is what makes Supply Chain professionals exceptionally good dealing with problems and fighting fires. We can assess a problem and deal with it and solve it or come up with an alternative plan.

We can take very complex solutions on a walk and have a pretty good idea what needs to be done to solve it. For these qualities we are well respected and appreciated.

Something that people do not tell us very often is that we are perceived as tactical and not strategic. That perception for a mid-level position supply chain professional is the kiss of death in terms of reaching the Boardroom. We are good in the trenches but we're not good visionaries or leaders of the complete organization. The message that we are sending is that we are not C-level material. Perception is reality and we are not going to get closer to the Boardroom by ignoring perceptions or shortcomings.

Two of the greatest challenges in the past few years, as well as the stages on which we have demonstrated our capacity to lead, have been global warming and the fuel crisis. Some companies have made initial progress. Based upon the latest GSCLG Senior Management survey 73% of Supply Chain management is not doing anything beyond the cost side of the fuel equation and other "green" projects.

If fuel and global warming are not the perfect causes for you as a Supply Chain professional to drive and show your C-level material, I am at a loss at defining what it will take for us to do it. We can't be expected to just lower costs and not bring something more to the whole organization. Who better than Supply Chain personnel to drive these initiatives?

Now, the reality is that very few are recognized for their efforts, but many of us have made and continue to make significant impacts on these two important issues. We are not telling the story right. We need to "speak" in terms that will be understood by others in the proper context. Next time you make you presentations on cost cutting add a slide on carbon reduction. Every time you come up with a better packing, optimize routing, eliminate waste, or reduce unnecessary moves of materials, reduce wait time, improve usage of the equipment, and so forth, make sure that you measure the tangible benefits to the environment and the impact of greenhouse gases and global warming.

If you do that, it reinforces the message that global warming and fuel consumption is important. If you track it, it is important, but you will also send the message that you are a holistic professional. We are taking the two most significant issues of our professional careers (some might say more) and you are dealing with them. Once you start, others will follow; and if others follow, guess what? You are a leader.

C-level material is that simple; it is being able to deal with the whole organization while having the capacity to execute. No matter how good we are at executing if we can't lead the whole organization, we shouldn't be on the Board.

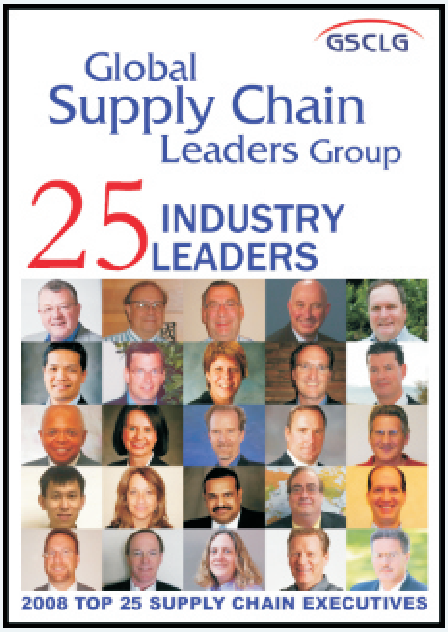
I know that we can and we just need to drive and communicate to change that perception. People's perceptions of global warming and the fuel crisis are changing. Perceptions of the supply chain professional can also change.

Sergio Retamal
President, GSCLG

GSCLG

Calling all Nominations for the 2009 Supply Chain Excellency Awards!

Could you be one of the 2009 award recipients?



The Global Supply Chain Leaders Group (GSCLG) is calling for nominations for the 2009 Supply Chain Excellency Awards. The two award categories include:

- **CEO of the Year**
- **Top 25 Supply Chain Executives of the Year**

The award, which was created to honor CEOs and supply chain executives who have made a significant contribution to the advancement of the Supply Chain Industry, will be presented on an annual basis. The 2009 recipients will be awarded during the Annual Global Supply Chain Leaders Award Dinner on September 09, 2009, held in San Jose, CA.

Nominations for the 2009 award are due by June 12, 2009 and must include the following items:

- A letter or e-mail introducing the nominee and explaining why he or she is proposed for the award. This document serves as the nominator's letter of reference.

- The nominee's professional biography and/or resume describing nominee's education, employment, accomplishments and honors.

After receipt of the nominations, the GSCLG Award Committee will review and select appropriate award recipients.

Place your nominations now! Nominations should be submitted to nominations@GSCLG.com by June 12, 2009.

Please contact Andrea Kostelas via e-mail at andrea.kostelas@gsclg.com for more information.

An interview with Bill McLennan, President of Global Operations for ModusLink Global Solutions, Inc., a leading provider of global supply chain business process management solutions.

By Nancy Ellen Dodd, MPW, MFA

Bill McLennan is the President of Global Operations for ModusLinkGlobal Solutions. He is responsible for strategic management of the company's worldwide supply chain business spanning North America, Europe, and Asia Pacific. He also provides oversight of the company's global e-Business initiative and facilitates the development of global solutions for international clients seeking to expand their business worldwide.

Although prior to ModusLink Mr. McLennan was a partner at Onyx Capital Ventures, a Chicago-based venture capital firm, much of his supply chain management and technology experience came while he was President of RR Donnelley Logistics and as President of Packtion Corporation, an Internet-based technology startup. He also served as CFO of Silgan Containers and held finance leadership roles at FMC Corporation.

Mr. McLennan holds Masters Degrees in Management from Northwestern University in Illinois, and in Engineering Management from the University of Kansas at Lawrence where he also earned his Bachelor of Science Degree in Mechanical Engineering.

One of my takeaways from this interview was that a significant amount of money can be saved when efficiencies in supply chain management are implemented-money that could instead be used to save jobs. As Mr. McLennan stated, "Costs are the first line of defense."

Reducing the impact supply chain processes have on the environment, is another type of savings that can be realized by thinking through both product and package design. “We recently helped some clients go from a plastic clamshell design to a more environmentally sound trapped blister design, which still provides the same level of security in the store, but it reduced the greenhouse gas emissions significantly and reduced the size of the package.” He estimates they were able to stack 33% more product on the pallet. “You can see how this continues to build on itself when you can reduce the footprint of the retail package.”

Another takeaway provided a clearer picture of why forecasting is so difficult: it's not just forecasting-it's consumer-demand forecasting. How do you calculate how many people are going to buy a television today? Or which brand? “Nobody can predict when a consumer is going to drive to a retail outlet, go inside, and buy something. And with all the promotions going on, sometimes consumers just go trolling for the good deals out there - opportunistic buying,” Mr. McLennan commented. Another side to that is predicting growth. “You could be forecasting a 20% increase this year over the holiday season, but only get 15% or 10%. That's still growth, but it also leaves a lot of televisions en route to stores or on the shelves.”

What about the future of supply chain management in five to ten years? “We all wish we had a crystal ball.” However, Mr. McLennan sees technology that can advise real-time adjustments. “If fuel runs up to $100 a barrel suddenly, I can see a supply chain inputting that information, analyzing it at an SKU-level, then kicking out an optimized answer saying that we need to move these SKUs closer to the manufacturer or we need to postpone them closer to the consumer. It's really just developing a mathematical algorithm that can calculate a balance.”

By the conclusion of the interview, I had a new appreciation and sense of excitement for the challenges in supply chain management. It isn't just about moving products and services, it is about identifying solutions throughout a global environment to increase and implement efficiencies in time-to-business or time-to-customer while being socially responsible and still improving the bottom line in tough economic times. Mr. McLennan concurred, “It is absolutely the most demanding, intellectually stimulating job I've ever had.”

In the interview below, Mr. McLennan shares how he and ModusLink deliver global supply chain value.

How important is supply chain management to your clients' overall business strategy?

For our clients, supply chain management is a critical component of their overall business strategy, especially during these economically challenging times. The weakening of global consumer demand has driven significant overcapacity and excess inventories in many of the consumer product segments. This has resulted in an acceleration of average selling price declines at the retail level. If you visit many major retail outlets now, you will see prices have come down quite a bit, but the consumers still aren't pulling as many products off the shelf.

Effective supply chain strategies provide a roadmap to cost optimizing and revenue facilitation. Our experience has shown that optimizing management across the entire supply chain yields significantly more savings than a focus on isolated costs in functional areas. More importantly, a flexible global supply chain enables an appropriate balance between total delivered cost of the product channel inventories and time to market, and that's crucial.

What primary areas of focus, or key initiatives, should your clients be looking at for supply chain management?

Currently, and again in the face of this economic uncertainty and consumer demand softness on a global basis, postponement and deferred configuration of retail products is important. Value recovery solutions are high priority as companies look to build a more agile supply chain for the future and deal with the excess inventory resulting from the recent decline in consumer spending.

What we have seen at ModusLink is a rise in demand for our Optimized Configuration Solution that helps clients design and execute a more flexible global supply chain. Network design optimization takes a calculated approach to balancing time, distance, cost, and service using sophisticated modeling techniques and simulation methods to determine the best time and place for various critical processes such as final configuration, packaging, and distribution of products given user-defined constraints.

For example, we recently presented a global supply chain solution to a leading consumer electronics company that will reduce its costs in excess of $50 million per year and will also shorten time-to-market and reduce channel inventories. While the cost reduction figures are impressive, at a personal level I am more excited about our ability to shorten time-to-market for this particular client because I know that's going to translate to higher market share for them.

As for aftermarket services, this is an area that can represent a source of high-margin business for manufacturers. The reverse supply chain should be viewed as a source of value recovery and revenue generation, but many companies don't look at it that way. Manufacturers need to examine their post-sale activities such as management of returns, recall, and disposition. A critical look at return locations and processes, for example, can reduce cost and increase operating efficiency while driving better service execution, higher margins, and a far better consumer experience.

It is key for manufacturers to also consider their e-business initiatives when analyzing supply chain design. We can seamlessly integrate our e-commerce solution with the entire range of supply chain activities including fulfillment, distribution, and financial management services to build a business-to-consumer model that integrates with the business-to-retail model. As more and more customers are migrating away from the retail shelf and shopping online, those companies need to have an integrated supply chain as well. In fact, Forrester Research estimates that by 2012, in the U.S. alone, online retail will grow to over $335 billion.

How can outsourcing enable your clients to be successful with these initiatives?

By outsourcing, brand owners are able to focus on improving their product offering rather than devoting resources and cash to infrastructure processes. I believe this provides a competitive edge in the marketplace. More often than not, those manufacturers that make the choice to outsource win consumer market share. Also, ModusLink has the global footprint that our clients just don't have to enable a flexible and fluid supply chain that can adapt to changing market conditions or rapid growth. Combined with our local market expertise, ModusLink is a good partner for clients looking for global expansion and new market opportunities.

Are your clients asking you to help them address the market's increasing focus on "green" supply chains and reducing the company's carbon footprint?

Absolutely. In response to the increasing focus on reducing the environmental impact of our client's supply chain processes, what we've done at ModusLink is to develop a Sustainable Solutions Suite, which takes an end-to-end approach that includes services from packaging design to network optimization and simulation and Greenhouse Gas (GHG) footprinting to recycling and asset disposition. Our Suite of Sustainable Solutions is designed to not only lessen the environmental impact of supply chain processes but also to reduce cost.

ModusLink is an active participant in the Wal-Mart Sustainable Value Network and a sustainable packaging advisor to the Consumer Electronics Retail Coalition/GreenSeal, both of which have afforded us valuable insight into future trends on the retail shelf. Using a 4D methodology, which is ergonomics, cost, sustainability, and logistics designs, we are working with some of the world's leading brand owners to redesign their product packaging to reduce material, pallet density, labor, and carbon emissions.

What do you think the key supply chain management priority for the coming two-three years is for your clients?

Without question, what I'm seeing is that it's really going to be the ability to adapt to change and to continue to help our clients achieve their goals to drive cost down, get to market faster, and reduce the risk of excess and obsolete inventory. In an uncertain economy it's essential to get this balance correct.

It will be increasingly critical for manufacturers to expand global supply chain mobility and flexibility, while maintaining reliability, in response to constantly evolving economic market conditions. We're seeing the source of manufacturers shifting from China to Vietnam and Eastern Europe. As the rate of change continues to increase, a supply chain that can react seamlessly to variable input values will be a critical success factor. With geographic supply chain boundaries quickly eroding, global supply chain leaders will need to implement network optimization, postponement strategies, and what we call multi-tier collaboration efforts as base requirements. Really, just more flexibility and adaptability to migrate the supply chain where the input variables are changing.

Let's expand that out to the next five-ten years, what do you think the priority is going to be for your clients?

I really see two emerging trends: one of them is dynamic supply chain management and the other is environmental sustainability. There is much talk about flexible supply chains today, but to really optimize requires a global network infrastructure that is close to the sources of supply and to the source of consumption-so the start and the end of the supply chain. Real-time data on input costs and forecasts at the SKU level will enable optimization as volatile input prices like fuel costs change. We are able to do this for some of our clients on a periodic basis today.

For sustainability, recycling, refurbishment, or excess inventory and value recovery programs to maximize the use of all products, will no longer be innovative in five years, they are going to be necessary. Consumers globally, and I travel all over the world and see this, want a better environmental balance and we will see an acceleration of the trend where product selection at the retail shelf will be along the environmental sustainability dimension, not just price.

What are the biggest internal challenges for manufacturers to achieve supply chain excellence?

In my experience, one of the biggest internal challenges for manufacturers is poor communication. Many companies are still organized into functional silos that make business critical decisions on supply chains independently because the departments aren't interrelated. This is a breeding ground of inefficiency and communication breakdown because the company's not aligned nor have they aligned their own internal incentives. The manufacturer that takes a holistic view of the supply chain understands how increasing material costs to reduce the weight of the product can lower logistics costs for a greater overall savings.

The other challenge is inaccurate demand planning, and this is one that frustrates most companies. Supply chain strategies driven by sales forecasts rely heavily on accuracy to achieve successful metrics. Sophisticated analytical and evaluation tools are needed to effectively integrate the demand-planning functionality into inventory replenishment systems. Successful applications are dependent on collecting information on a global basis, applying it to drive inventory rules for replenishment and constantly evaluating it. So you have to look at the cycle times, you have to look at volumes and costs. The power of a demand-planning methodology is really to optimize the flow of goods for every item in every location. Many companies believe that because they cannot forecast, they cannot outsource. At ModusLink, we routinely deal with weekly client-provided forecast variations from 200% overshoot to 80% undershoot at many of our solution centers. We have built proprietary technology and business processes that enable us to meet our clients' retail delivery requirements under this wide range of short-term variability.

What are the biggest external challenges in achieving supply chain excellence?

The external planning environment constantly changes. I always start with the consumer whose demand for a client's product could change, or things like fuel prices, import duties, labor laws, or new environmental regulations are factors that change constantly. Achieving true supply chain excellence requires a flexible global infrastructure that can adjust rapidly to these changes.

What are the supply chain challenges to which clients should be paying more attention?

The competition does not stand still, the environment changes, and consumers are becoming more educated. Executives need to constantly challenge the status quo and seek new levels of supply chain performance. In my discussions with senior executives, the question of "what is next" is most in focus. A global supply chain partner like ModusLink can help enable companies to manage that balance of cost reduction, inventory reduction, and time-to-market.

What are the main skills and personal attributes that have helped you reach your current position?

You've forced me to have some self-reflection here. I think I have always had a level of personal curiosity and a desire to learn new things. I have been fortunate to get an education in engineering and finance, which enables me to understand how, theoretically at least, to optimize and make business trade-offs. My professional career has enabled me to work in Europe and Asia in a variety of line and staff functions that have really helped me learn how to think and act more globally.

How do you grade ModusLink's overall performance in client satisfaction?

We get very positive feedback from our clients but we can never become complacent in a dynamic environment with any client. Our success lies in the fact that we continually push the frontier of supply chain performance on our clients' behalf, creating true partnerships that adapt and change with our clients' growth and advancements. It's the collaborative partnership approach that has helped enable clients to become market leaders in supply chain performance.

During this economic downturn, how do you keep your entire organization motivated?

A little bit of a dichotomy here for us, our clients' volumes are down, but our activity levels are way up. The demand and inquiries for our services has never been higher as many companies have been forced to search for ways to improve their supply chain performance. We are very busy and motivated in helping new and existing clients develop solutions and add more services that will reduce their costs, their inventories, and their time-to-market.

What have you learned as President of Global Operations that has surprised you or changed the way you do business?

I think what I didn't count on most was the pace of change. You get a certain sense of it at the regional level, but until you are afforded a truly global viewpoint you just can't realize how rapidly things change and develop. It certainly keeps me busy!

Turbulent times should be the best time to implement changes. However, companies tend to paralyze due to uncertainty in the market or their human capital. What is your advice to maximize the opportunities to implement changes during tough times?

This is something I feel passionate about. First, you have to take care of your key leaders in your company because it's really all about the people you're working with. In difficult economic times like this, everyone is looking over their shoulder and nobody wants to be noticed. Executives really need to reach out to their key leaders and drive projects and increase their responsibilities to help affect change and provide organizational stability. This is an excellent time for companies to determine the real depth of talent they have and to make change "a positive" in their organizations.

About the Author:

Nancy Dodd serves as editor of the Graziadio Business Report, an online business practitioner's journal, at the Graziadio School of Business and Management. Dodd's journalistic career includes publishing more than 125 articles in local and national publications including interviews with celebrities and business leaders. She also served as editor of Marshall, a USC academic / alumni magazine, and started the Marshall Review, an online academic and business practitioner journal for the Marshall School of Business at USC. She began her career as managing editor of Elan magazine, a lifestyle and arts magazine. Dodd has also coached and served as consultant to other non-fiction writers and to start-up magazines.

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Director, Supply Chain, Infinera Corporation, a digital optical communications company

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"Yes" to Cost Savings and "More" Compliance - Absolutely.

By Jeff Chiu, Vice-President, Global4PL Supply Chain Services

An emphatic "Yes!" should be the reply when an importer is asked if it is committed to reducing costs and increase compliance. Likewise, an emphatic "Yes!" should be the reply when an importer is asked if it practices reasonable care in its Customs transactions.

Numerous entities comprise the importer's supply chain, from manufacturers, vendors, and exporters, to freight forwarders, carriers and express couriers; at destination there reside their counterparts, along with customs brokers, distributors, and delivery companies.

Most companies negotiate and manage all their contracts, purchase orders, freight rates, shipping terms, with almost all of the parties involved in the supply chain, but few look into the customs clearance area beyond negotiating the entry fee.

Large freight forwarders have brokerage departments that contribute to their abilities in offering door-to-door service. Compliance suffers at the cost of savings, when brokerage departments are given a fraction of the freight revenue that is “packaged” with transportation charges, and when the brokerage teams are expected to process as many entries in the shortest amount of time possible. This is not to say that brokerage departments of the large freight forwarders don't do a good job; there are certainly very talented people who provide excellent customer service. However, customer service does not always include Customs compliance during the data entry buried within the day-to-day task of clearing shipments.

The timely filing of an import entry aims to eliminate delays in the supply chain. The information gathered by the customs broker is vital to the calculation of duties and fees. Companies that rely too much on their broker lose the control of the process and compliance suffers.

There is a solution to the proverbial “having your cake and eating it too.”

Title 19 of the Code of Federal Regulations, specifically 19 CFR § 111.2(a)(2), US Customs & Border Protection (“CBP”) provides the scenarios in which a Customs Broker's license is not required to transact Customs business. One instance is: “An importer or exporter transacting Customs business solely on his own account and in no sense on behalf of another is not required to be licensed, nor are his authorized regular employees or officers who act only for him in the transaction of such business.”

A freight forwarder or a traditional Customs brokerage is required to have a license in order to file Customs entries on behalf of an importer. An importer is not required to have such a license if it were to clear its own imports. A traditional brokerage model requires that at least one officer possess a Customs Broker's license. An importer is not required to have such an individual in an officer's position.

An importer with 1,000 entries per year who pays on average $100 per entry (entry fee plus accessorial fees) will pay $100,000 in brokerage fees to a freight forwarder or a traditional brokerage. An importer can easily increase headcount by two full-time employees for this amount. Most importers will stop with its analysis at this point because it appears to be a wash.

In terms of numbers, the two employees represent “flat fee” pricing, where if the number of entries increases slightly, the employee headcount and expense do not. The other benefit that most importers do not fully appreciate is the improvement in import compliance. An importer's staff works on one account; the employee at a traditional brokerage works on numerous accounts. An importer's employees are bound to exercise greater care in their work as opposed to the data center environment of a freight forwarder or a traditional brokerage.

An importer with 1,000 entries per year who uses a web-based Customs entry software package will pay on average $20 to $25 for each entry, or a total of $20,000 to $25,000 per year. If an importer has staff available or can shift some staff responsibilities around, this represents a savings of $75,000 to $80,000 per year. Similar to the first example, the importer will also benefit from improvement in import compliance.

In both examples, it is important to note that the knowledge of an importer's business, its import supply chain, and its Customs transactions are retained with the importer's employees. This is in contrast to the approach used by freight forwarders and Customs brokerages where staff can be rotated or worse, not replaced when they depart. The importer has to "train" a new associate with each new rotation. Again, this is not to say that there are not valuable people at the freight forwarders and the traditional brokerages, but that it is difficult to retain the knowledge. Written standard operating procedures only go so far.

About the Author:

Jeff Chiu is Vice President at Global4PL, a supply chain management consulting company that assists clients to reduce costs and achieve their full operational potential. Mr. Chiu, a licensed US Customs Broker, possesses over 12 years of experience in import operations and compliance, with emphasis on internal Customs audits, commodity classification, tariff engineering, trade programs, and training.

The numbers are easy to show and justify the in-housing of filing Customs entries; the savings are tangible. The rule of thumb for self-filing should be 500 entries for those who pay duties and 1000 for those who do not pay duties on their entries.

The next question is: "What does it take to implement this initiative?" An importer may want to engage in self-filing, but does it have the staff, time, and most importantly, the commitment?

An importer with personnel experienced in imports and with excellent internal controls would have the shortest implementation period. It would involve training the appropriate personnel to use the entry filing software and on the workings of the particular port in which the importer is located.

Although an importer without such experienced staff may be required to seek out such human resources, it does not mean self-filing is out of reach. It may designate a person to oversee Customs transactions for the entire company, but outsource the daily operations to a third party supply chain management firm. This solution provides a faster ramp-up time on implementation and instant expertise and assistance on Customs related issues.

The import compliance may appear to be an intangible benefit at first, but it will manifest itself in a decrease in the number of examinations at the border, thus decreasing delays and the associated costs of getting the goods to market. CBP would recognize and appreciate that the importer is exercising greater reasonable care (as defined in the Customs Modernization Act) and in its transactions. The importer may at one point, consider membership in the Importer Self-Assessment ("ISA") program where in exchange for the application of the strictest internal controls as they relate to Customs transactions, CBP would remove the importer from the general audit pool, amongst other benefits.

After an importer has crunched the numbers and identified the personnel for the self-filing, it has to surmise whether it has the commitment to take on such an initiative. Certainly, an importer understands the need for strong internal controls, computer hardware, software, record keeping requirements, and training. Underlying all of these needs is the commitment.

It is an initial commitment voiced and upheld by top management and its mission for the company to follow all import regulations. It is a commitment to monitor all electronic transmissions and messages from the Automated Broker Interface (ABI) and payments via the automated clearing house (ACH) on a daily basis. It is a commitment to actually execute what has been written down as policy. It is a commitment to train and cross-train staff so that the compliance standard does not wane.

Some argue that a self-filer looks and acts much like a traditional broker, aside from the obvious differences (non-requirement of a license holder and the inability to transact Customs business for other parties) and it is not worth the effort to internalize the filing of Customs entries. On the surface, it has the added burden of import compliance, but CBP has already placed that burden on the importer with the Customs Modernization Act. Taking on self-filing is merely an extension of the operations - sourcing, purchasing, freight negotiations, distribution – of an importer, and will allow for greater control over a critical link of the supply chain.

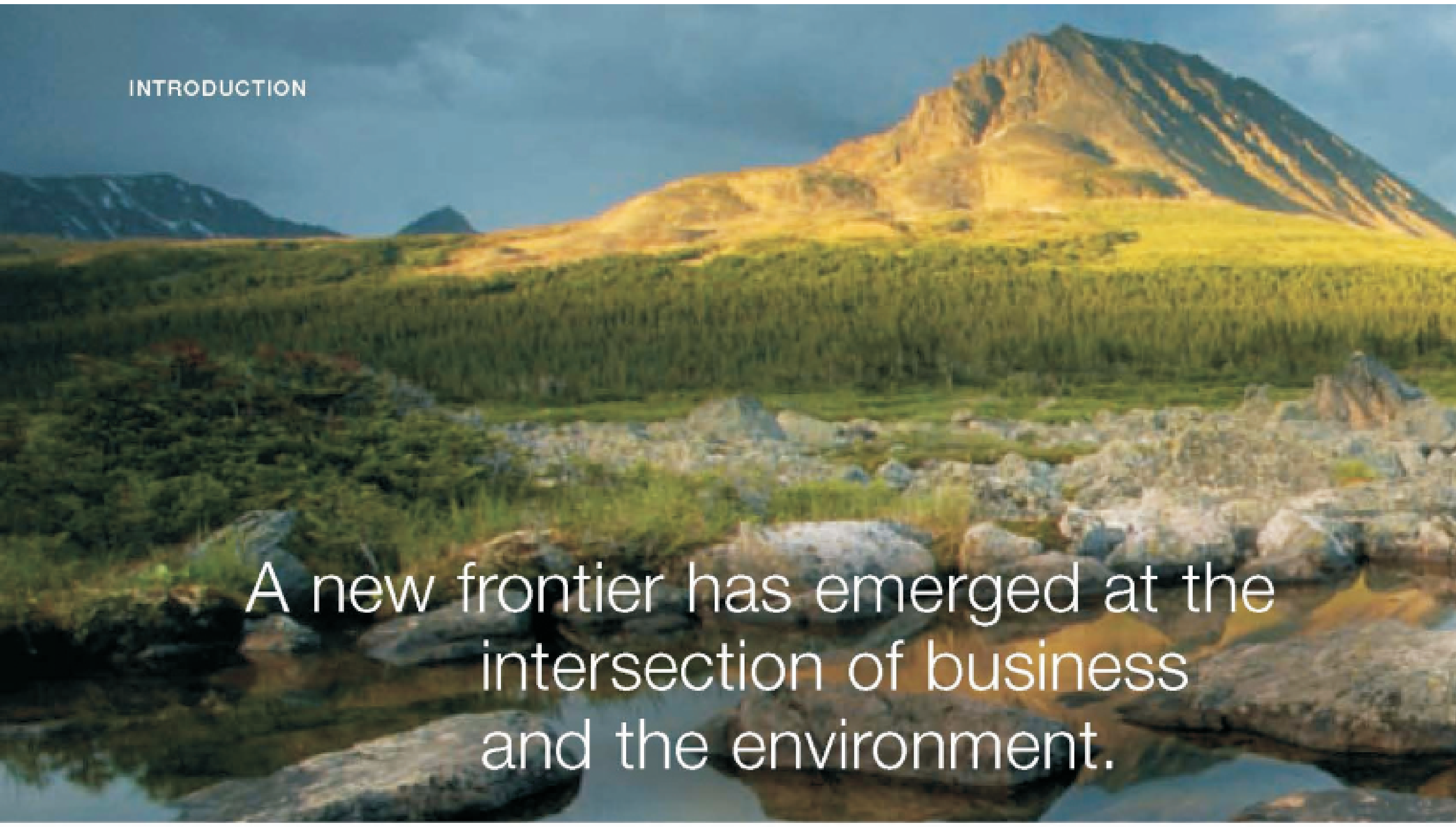
2008

Innovations Review

Making green the new business as usual

Environmental Defense Fund

finding the ways that work



A new frontier has emerged at the intersection of business and the environment.

Environmental sustainability is no longer the purview of boutique eco-brands. And it is no longer just about compliance with regulations or securing positive press coverage. It's about driving cost savings through efficiencies, creating new markets and securing competitive advantage. Smart companies realize that what is good for the environment is also good for business.

But after taking care of the basics—like switching to energy-saving lighting, buying recycled office supplies and printing double-sided—what is the next step? With this new annual review, Environmental Defense Fund aims to showcase some of the most promising new trends and best practices. Our goal is to provide a variety of actionable ideas and some inspiration for more dramatic change.

The new processes, products and technologies highlighted in this report were selected based on four key criteria: good for business, good for the environment, ready to be implemented and innovative. We did not include ideas that are still in the R&D stage or those that have already been widely implemented or documented. In some cases, we selected innovations that have already been fully tested and put into commercial use; in other cases, we chose to highlight promising early-stage ideas.

The categories included in this first report are areas in which Environmental Defense Fund has significant expertise (such as packaging, energy and transportation) or where there are substantial opportunities for innovation (such as IT and insurance). We anticipate covering different categories in future editions.

Within each category, we attempted to provide a range of ideas: from incremental changes to more radical, business-model innovations; and from those that offer quick implementation and a short payback period to longer-term, more involved "game-changers." Additional resources and links are available on our website.

Ideas for this report were collected through interviews with more than 40 experts, a review of leading business and trade publications and nominations from companies. Based on information collected from the companies involved and third party sources, each idea was assessed by technical and subject area experts and reviewed by an advisory panel. (Refer to the Methodology section, page 31, for complete details on our data collection, criteria and screening process.)

More online: edf.org/InnovationsReview

Additional Resources: Access more information and tools related to applying these innovations to your company.

Nominations: If your company is doing something innovative at the intersection of business and the environment, we want to know about it. Please click on the nominations form. We will review all projects for consideration in next year's report.

It is important to note what this report is not: It is not a comprehensive inventory of all worthy innovations. There are simply too many good ideas for that to be possible. Nor is it a list of "top green companies." Many of the companies named in this report are coping with huge environmental footprints. However, the innovations they developed represent a positive step in the right direction. It is also not a review of cutting-edge technologies. In many cases, the innovations are low-tech methods that require more openness to change than advanced technology.

We hope this report contributes to the current dynamic dialogue around business and the environment. Above all, we hope it starts a process of bringing best practices to light so that they can spread more rapidly. We welcome your input on how we can make this report more useful and, most importantly, we want to hear what you are doing. We look forward to highlighting even more innovative practices in next year's report.

2008 Highlights

How can your company take environmental management to the next level? The following examples highlight

	Opportunities	Innovations	Business Benefits
REAL ESTATE	Your roof is under-utilized real estate, but solar panels present a high hurdle rate.	**Solar power purchase agreements:** Fixed-rate solar power is attainable without upfront capital expenditures or ongoing operating costs (p. 7).	Predictable energy costs.
REAL ESTATE	Artificial lighting, heating and cooling are used far more than necessary in most buildings.	**Passive systems:** Low energy lighting, cooling and heating systems, which use sunlight and naturally warm or cool air, are technically and financially feasible (p. 9).	Reduced energy costs. Increased productivity due to more comfortable environment for employees.
OPERATIONS & MANUFACTURING	Rising, unpredictable energy costs threaten profitability.	**Institutionalized energy efficiency:** Model program illustrates how a global corporation can build energy efficiency into its operations (p. 12).	Reduced energy costs.
		Co-generation plus: A mix of co-generation plus on-site renewable power production can produce reliable, lower-cost energy (p. 11).	Reliable, efficient power.
OPERATIONS & MANUFACTURING	Mitigating environmental problems after the fact is costly and inefficient.	**More efficient product design:** By starting at the design stage, companies are designing out environ-mental problems (p. 10).	Reduced costs for materials and waste. Opportunity to enhance brand and secure competitive advantage.
FLEETS	Rising gas prices make operating sales, service and delivery fleets increasingly expensive.	**Telematics:** A suite of technologies boost fleet efficiency (p. 14).	Reduced fuel costs, higher productivity and better customer service. A one-year payback period for some fleets.
PACKAGING	Unnecessary packaging generates unnecessary costs.	**Dematerialization:** Packaging, and the products themselves, can be redesigned to reduce weight and volume (p. 16).	Reduced costs for materials, inventory and shipping. Space on shelf for more products. Opportunity to enhance brand.
		Maximized PCR: Traditional barriers to post-consumer recycled (PCR) content have been broken (p. 17).	Opportunity for reduced costs and to enhance brand.
FINANCE	Traditional insurance may not sufficiently reward your investment in green building features.	**Green building insurance:** New insurance products recognize the reduced risk and superior quality of certified green buildings (p. 19).	Potentially lower cost insurance. Assurance of restoring green properties to original condition after a loss.
HUMAN RESOURCES	Long commutes and gridlock traffic are draining employees' time and morale.	**Large-scale telecommuting programs:** Boost telecommuting rates through technology, new processes and changes in corporate culture (p. 20).	Reduced real estate and operating costs. Increased employee productivity and retention.
		Company-run transit: Getting employees out of traffic via private, wifi-equipped buses reduces stress and time wasted in traffic (p. 21).	Attractive employee benefit. Enhanced employee satisfaction.

proven methods by which companies are generating business and environmental benefits.

Environmental Benefits	Applicability
Reduced carbon dioxide (CO_2) emissions. More renewable power added to grid.	Any company that owns its own building. However this tool relies on state and local incentives as a component of financing.
Reduced CO_2 emissions.	New or retrofitted office, warehouse, retail and manufacturing facilities.
Reduced CO_2 emissions.	Any company with multiple office or manufacturing sites.
Reduced CO_2 emissions. More renewable power added to grid.	Any manufacturing facility.
Reduced solid waste. Fewer toxins and virgin materials used and other benefits, depending on the product.	Any company producing a consumer or business to business product.
Reduced CO_2 emissions.	Available in various configurations by a number of vendors, telematics is applicable to sales, service and delivery fleets.
Fewer virgin resources consumed. Reduced CO_2 emissions and solid waste.	Any company producing a packaged consumer or business to business product.
More incentives for companies to implement green upgrades.	Any company that has invested in, or is considering, green building features.
Reduced energy use and CO_2 emissions.	Any company with an office-based workforce.
	Large companies in metropolitan areas without significant public transportation.

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Downsizing with Dignity
Management principles gleaned during a plant closure

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http://gbr.pepperdine.edu/012/dignity.html

By Ann E. Feyerherm, PhD.

In downsizing, managers are urged to create a learning environment by working with their employees.

The plant manager's voice cracked as he read the announcement that the company's Southern California production facility, in which he worked, would close its doors. I looked around the makeshift stage set in the shipping warehouse. The union president - jaw set and intense. Twenty-five-year veterans of the plant - slumped in disbelief. And young managers - feeling the sting and knowing they would bear the brunt of employee anger and anguish.

I was a member of a management team that had labored nine months in a cone of silence trying to decide what fate to recommend to corporate decision-makers. Our manufacturing plant had been around for over 50 years. During the Depression, it had served as a beacon of light, giving hope to the surrounding community. Now, this star was fading.

I flashed back to key moments in our nine-month deliberation process. Corporate decisions were being made that slowly would remove a growing variety of products from our plant. However, since these decisions were made by independent groups of managers at corporate headquarters, no one looked at them from the perspective of the whole plant. Our plant manager, however, urged us to pull our heads out of the sand and look at the implications five years down the road.

We collectively had to face the facts. Did we want to die a slow death with no control, or could we somehow shape our destiny? At first we rallied with hope. We had a group of MBA students propose creative alternatives. We formed teams to come up with feasibility studies on new products and other alternatives. But the cold, hard truth was that life, as we knew it, was ending.

So we were faced with the question of how to bring it to an end. We could slowly hang on, enduring wave after wave of layoffs, expanding the empty sections of the plant. Could some be saved if we did that? Maybe. Would corporate come along some day and say, "Forget it, you're too small and the overhead too large." Probably.

Another way to end was for us to recommend plant closure, with some conditions. Conditions that included plenty of warning for people, having a sizable retraining and placement budget, and making sure that all managers would have a position elsewhere in the system. Hourly workers would have the opportunity to transfer to other locations within the company, unheard of before. These conditions came from days of meetings where we examined our deep beliefs and values. We wondered out loud what conditions

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Dr. Feyerherm is Director of the M.S. in Organization Development Program and Chair of the Organization Theory and Management Discipline. Before earning her doctorate, Dr. Feyerherm spent 11 years as a manager of organization development at Procter & Gamble, where she was involved in employee relations, organization design, and corporate downsizing. As a consultant, she has worked with Healthways, Honeywell, Monsanto, Frito-Lay, Two Chefs on a Roll and Boeing on projects such as improving multifunctional teams, creating learning organizations, negotiating effectively, leadership development and managing change. Dr. Feyerherm conducted research on the role of leadership in negotiating regulatory policy. She is particularly interested in mediation and negotiation of environmental issues and in inter-organizational collaboration across government, business, and environmental communities. In addition, she is interested in increasing human capacity through strength-based approache s. Her work has been published in the Leadership Quarterly, The Graziadio Business Report, and several book chapters. She regularly presents at the Academy of Management and Western Academy of Management. Dr. Feyerherm currently serves in a five year leadership position of the Organization Development and Change Division of the Academy of Management.

would have us - all of us - leave our employment with dignity and confidence. People needed to recognize what they had achieved while working there and be able to communicate to potential employers. For example, we knew that people had working knowledge of team building, quality management and communication skills that were of value to any business.

In a key meeting with the top manager in our division, we considered our options and finally decided to recommend closure. I remember clearly how this high level manager said that he wanted to be able to look his young son in the eyes and explain our decision with honesty and integrity. He became one of us that day, and led us in thoughtful and heartfelt discussions.

We spent many hours examining our principles during the shutdown. Two of these principles became embedded in my being. The first principle was to "do with" our employees - rather than to "do for" or "do to" them. The company was historically paternalistic and, coupled with our guilt over the hardships facing employees, we tended to "do for" everyone. Doing for people constituted a pattern of continued dependency on management for solutions rather than helping people learn how to act and think independently. There is the parable of teaching people to fish rather than giving them a fish when they are hungry. This is similar to what we meant - working with people to have them write their own resume vs. doing a resume for them, as an example.

The authors of a recent article in the Journal of Applied Behavioral Sciences suggested that the do for management style may lead to employees becoming dependent and demanding. This is like a divorced parent who gets the children every other weekend and brings lots of presents and spends money on doing fun things out of guilt. We found, however, that doing for our employees prevented us from dealing with them as partners in resolving our problems.

Doing to comes from a manager's desire for control. Such a person may seek to exert power simply because he or she is the manager. This type of manager might tell employees, "Hey, if you had done more, this wouldn't have happened. You'll just have to learn to live with it." The result is generally resentful employees. There were times that there were temptations to foist the blame on others, but those were rare for us.

The third option is doing with people. This orientation derives its energy from a position of responsibility and learning. A person might say, "Hey, this is a bad situation, but what can we learn about ourselves from it? How can we use this to make our lives better? What would help?" This management style is most likely to result in responsible and skilled people who can be depended upon during tough times. It also invites more partnership in learning. People can be used to generate ideas for action, such as creating seminars on owning one's own business or helping create a "yearbook" - both of which were done. Employees needed a supportive management to do this, one that offered the freedom to decide what to do along with the resources and guidance to make it happen.

All three of these philosophies have implications for action. The doing for orientation will have programs galore for people, designed by consultants who excel in downsizing and outplacement. People are practically forced into enrolling in programs. Managers will act as parents, checking up on who went where and fixing schedules so people can be freed up. The doing to group will have programs as required by law (or corporate policy). The delivery of these programs will be matter of fact, and an adversarial environment may develop that results in injuries and lawsuits. There will generally be little help for people who are displaced.

But organizations with managers who are doing with their employees will initiate discussions in which employees can verbalize what's most important to them. These organizations are likely to design programs that genuinely meet employee needs. Priorities will be established and people will coordinate their schedules with colleagues so that the work gets done as personal needs are met.

The second principle we embraced during the plant closure was to make the plant a "learning organization." As the end played out, people learned a tremendous amount about themselves. Managers learned how to manage people as human beings since we had few control mechanisms.

This meant listening to what people were feeling and helping them take the steps that enhanced self-efficacy, not just increase their skills or behave in a way that management wanted them to behave. We also had a great sense of equalization. A plant shutdown put everyone out of a job. Managers talked openly about leaving the company and other employees talked about their transfer options. Eventually, one-third of the employees at the plant were transferred to other locations while the rest were retrained, retired, went back to school, opened their own businesses, or were employed elsewhere.

An imminent plant closure accelerates the pace of change for managers. We were faced with planning what needed to happen in this strange new world while continuing to manage daily activities and deal with our own emotions. It was extremely difficult to maintain perspective and composure. We worried about plant production, conducted support groups for those wanting to start small businesses, and pondered how to deal with the teenager at home who was resisting any move out of the city. While managers are used to dealing with multiple issues, none prepares them to endure such an emotional roller coaster ride while trying to look in control.

We had success with open discussions and career planning. Many people decided that this was a good time to leave the organization, to take severance pay or benefits, or do things they had always wanted to do. In the best scenarios, an organization will co-create ways for people to enhance their skills and leave feeling valued and respected. This has a very positive emotional effect on employees who may be remaining in the organization.

Depending on how exiting employees are treated, those who stay may feel suckered, betrayed, or guilty. If those leaving get such a good deal, people might feel that they are suckers for staying. If those leaving get a bad deal, those staying will feel guilty. If people leaving (or staying) are lied to about things such as how they will be treated, or the terms of their severance, they will feel betrayed. Survivor's guilt is common when some departments are cut while others stay intact.

Unions are typically big losers in a plant closure. Sometimes there is deception or misunderstanding. For example, a union may be promised that a plant will remain open in exchange for certain concessions - but these concessions may not be enough for the plant to survive. There are often environmental factors beyond the control of just changing work rules or increasing productivity. Union members and representatives often can feel angry and betrayed. The other common scenario is that a plant closure is announced before a union is informed. The question of when to tell union officials such news is a delicate one. It is usually best if they are told shortly ahead of the general populace. For example, a union meeting with the highest management personnel prior to a plant wide meeting would be appropriate. You can ask that they do not disclose the information (Rumors will probably be so heavy that it doesn't matter.) It generally enhances future bargaining relationships to give a union the courtesy of prior information (although not too far in advance or you set the union members up for conflict.)

Treating a union as a partner often works well, especially if you have a philosophy and a history of partnership. At my plant site, there were several wins for all parties around a "Rule of 75" that allowed people to retire at a combined years of service and age (For example a 55 year-old with 20 years of service.) It is absolutely essential to start realizing that seemingly small things can be important. For example, the rule of 75 enabled employees to say, "I retired from the company," rather than, "I was laid off."

Managers provided employees with recommendations, and some employees received "stay pay" to remain through closure. Giving employees the first chance to purchase plant equipment was another appreciated gesture. The union at the plant was heavily involved in forming advisory teams, setting transfer procedures, and selecting outplacement counselors. They were helpful in spotting those who were emotionally unstable and helping them. A few employees judged to be emotional security risks were placed on disability.

There used to be an unwritten contract in America between top managers and workers that, if you made a good effort to do your job, you could count on having that job as long as the firm stayed in business. But this contract virtually disappeared in the 1990's and there have been unintended consequences. Loyalty and morale suffered and employees became reluctant to volunteer labor saving innovations that could lead to layoffs. And many organizations learned that the benefits of downsizing were, at best, short-term.

But the challenge of downsizing with dignity continues to puzzle managers and employees in today's fast-paced world. Being involved in a plant closure was one of the most emotional experiences I have ever been through as a manager. It was a profound growth experience for both employees and managers. It was a time when the principle of "doing with" was validated by trusting and productive relationships between managers, the union, and employees. And the value of sharing both professional information and personal insight maintained a strong sense of community as we literally tore down the walls of our organization. During this time, I felt that I could live by my principles. There was no other road map than the one I had within.

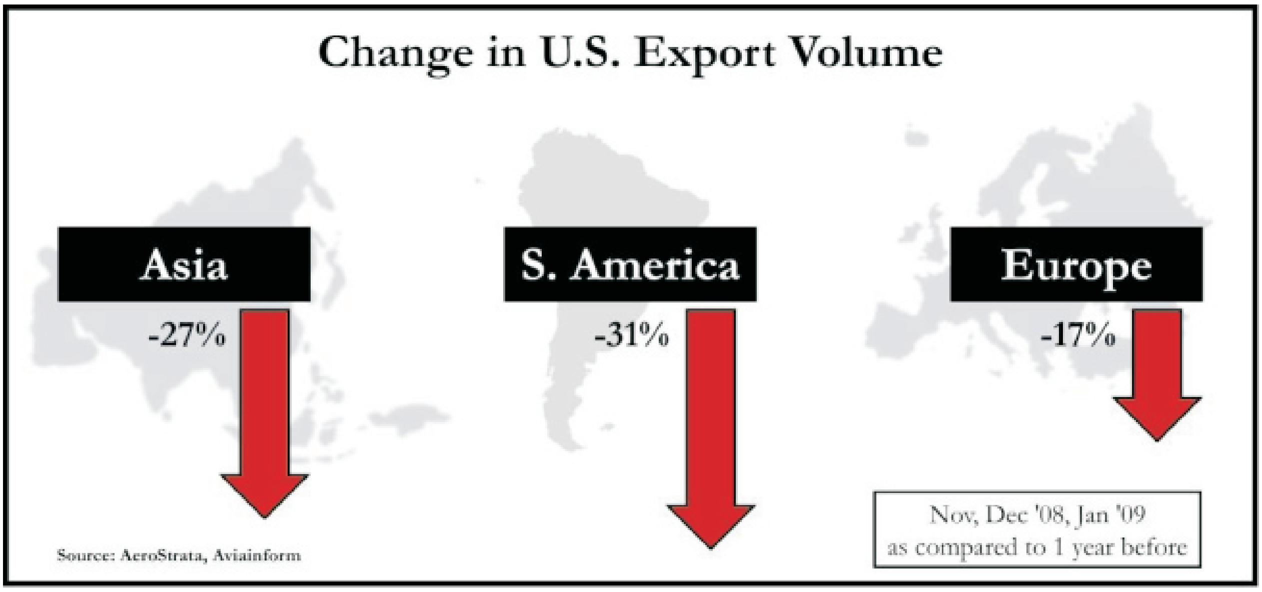
U.S. Airfreight Market Developments

By Ana Gerber, Vice President Global Research, AeroStrata LLC

AeroStrata is the leading Research and Consulting firm specializing in the global Air Cargo Industry. Our clients include Airlines, Shippers, Freight Forwarders, Airports, and Financial Institutions. Our research highlights global market trends and developments. Our business intelligence solutions provide speedy and thorough data analysis to improve our clients' decision-making process and increase their profitability.

In this issue we focus on changes in the airfreight market for the three-month period November 2008 to January 2009, as compared to the same months from the year before. While year over year tonnage for the months leading up to this period provided some relative stability, November 2008 to January 2009 saw a record-breaking decline in tonnage.

Export volume has decreased at an exceptionally rapid rate, catching the entire industry by surprise. Even the previously strong export market to Latin America saw a rapid decline in volume-although the reduction in *capacity* occurred later.

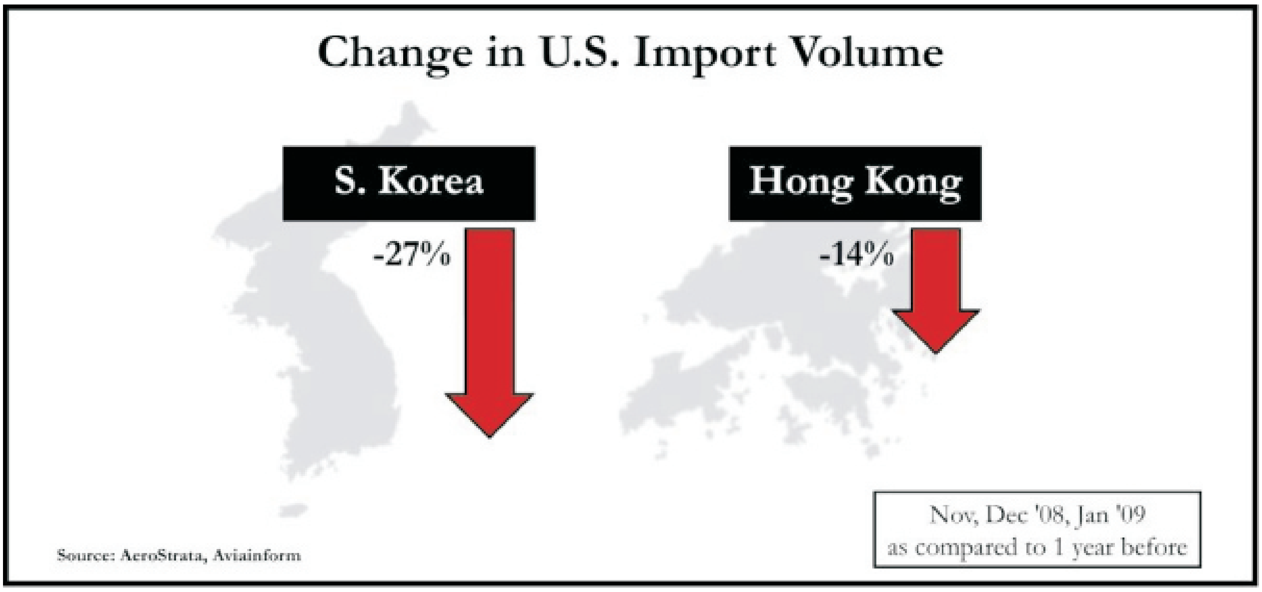


The reason for this drop is a combination of the reduction in the number of shipments and their respective shipment size. While the number of shipments decreased only modestly, the average weight per shipment dropped at a substantially higher rate, proving to be the major contributor to the overall volume drop.

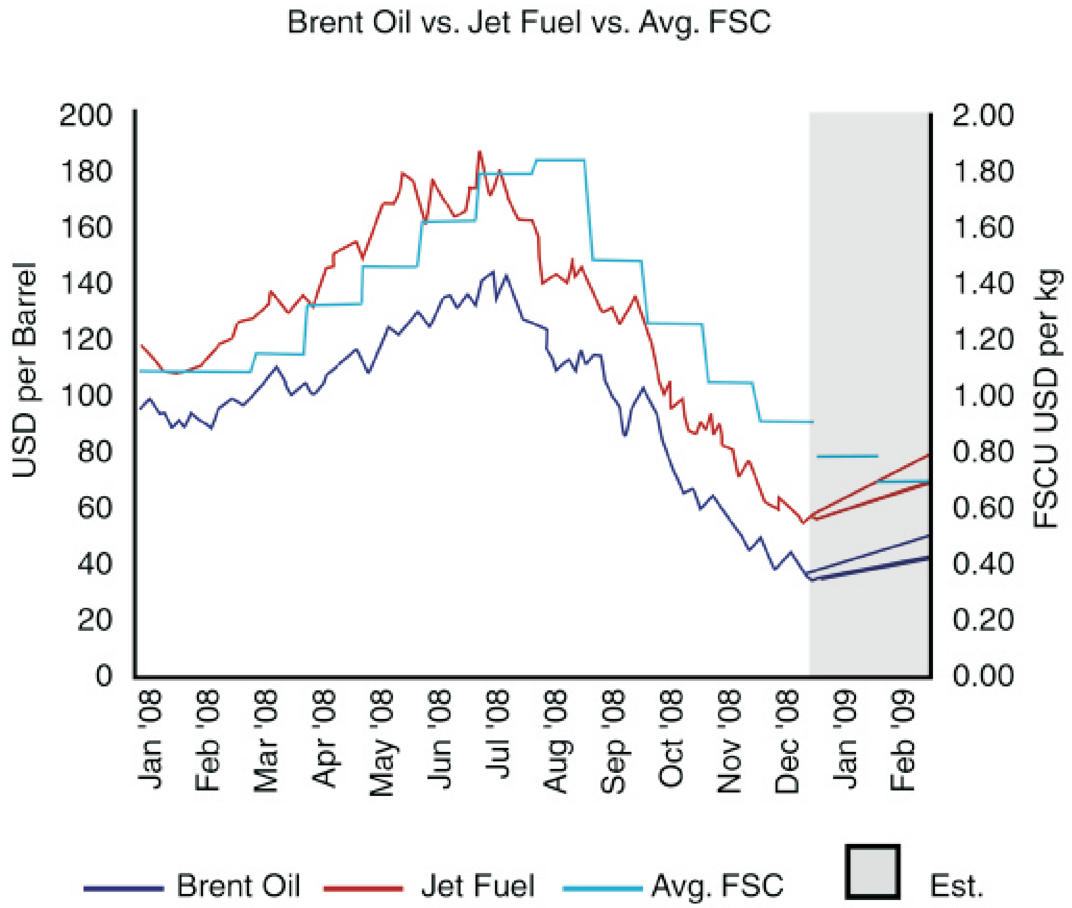
The effect of this downturn is a massive reduction of freighter capacity in all parts of the world. However, it is anticipated that the reduction in capacity still does not match the significant overall drop in volume during 2009.

U.S. airfreight import volume continued to decline even sharper for this period as compared to the months leading up to it. Consider, for example, the imports from South Korea and Hong Kong, two significant trading partners of the U.S. in 2008.

Import tonnage from South Korea shrank by 27% for this period compared to the previous year. Import tonnage from Hong Kong shrank by 14%.



The only positive development during this period was the continuous decrease of fuel prices, which led to a further reduction of fuel surcharge levels.



Examining the rate levels (excluding the surcharges) for the same period, we see that the average export rates from the USA to Asia, Europe, and Latin America actually rose 10%, 6% and 18% respectively, compared to the same period of the previous year. However, the average inbound rates out of Asia fell between 10% and 15% due to a non-existent peak season.

Leading economists continue to adjust their forecast downwards and do not predict any significant recovery in 2009. It is entirely possible that continuing deterioration in business activities will out pace all current volume estimates for 2009.

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